

Service Date: August 1, 1997

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF MONTANA-DAKOTA)	UTILITY DIVISION
UTILITIES CO., Application for Authority to)	
Change the Gas Cost Tracking Adjustment)	DOCKET NO. D97.3.43
Procedure.)	ORDER NO. 5994

FINAL ORDER

INTRODUCTION

1. In mid-January 1997 Montana-Dakota Utilities Co. (MDU), a Division of MDU Resources Group, Inc., Bismarck, North Dakota, and a public utility providing natural gas service to consumers in Montana and several neighboring states, informally advised the Montana Public Service Commission (PSC) of sharp increases in its costs of gas during the previous several months (October 1996 to January 1997). MDU then suggested that a procedure allowing more timely reflection of gas cost changes in rates is warranted and indicated an intent to file with the PSC for approval of such procedure.

2. On March 13, 1997, MDU made the filing through a formal application for approval of modifications to its existing gas cost tracking adjustment procedure (MDU's Montana tariffed Rates 87 and 88), including conversion of semi-annual implementation to monthly implementation. On March 19, 1997, the PSC issued and published a Notice of Opportunity for Hearing on MDU's proposal. In response to that notice no person intervened, requested a hearing, or submitted comments.

3. Primarily for the purposes of discussion and obtaining clarification and further information in regard to MDU's application, on June 6, 1997, the PSC held a public informational meeting with MDU in Helena. Discussion produced sufficient information regarding MDU's application and MDU's apparent willingness to accept reasonable procedural modifications to its application as filed. Although the Montana Consumer Counsel (MCC) did

not intervene, it attended the meeting and indicated that it has no objection to MDU's proposal. The PSC later determined that a hearing on the matter would not be necessary and MDU's application should be approved, with several qualifications, as explained below.

DISCUSSION AND FINDINGS

4. The primary goal of MDU's proposal to modify its tracker procedure and convert from semi-annual to monthly filings is to make rates to consumers reflect the actual market price of gas in a more timely manner and therefore provide consumers with accurate price signals. Under MDU's existing semi-annual tracker filings it is possible that customers might not learn the true cost of gas being consumed for 6 to 12 months following the period during which the gas was consumed. To reach its goal MDU proposes to modify its existing tracking procedure to reflect monthly adjustments to the current cost portion of the tracking adjustment based on the cost of gas to be in effect during the month, effective dates of the adjustments to be at billing rendered on and after the first day of each month. MDU proposes that no monthly filing will be made unless there is an adjustment of \$0.10/dk or more. However, MDU proposes that, regardless of the amount of change, a complete tracker filing will be made annually (May 1 of each year), accompanying the annual amortization of MDU's unreflected purchased gas cost account (which should be minimal with monthly filings, as compared to with semi-annual filings). MDU also proposes elimination of its Montana tariffed Rate 87 (procedure relating to semi-annual trackers). MDU reports that it presently has monthly tracker procedures in the other states in which it provides gas service (North Dakota, South Dakota, and Wyoming).

5. By way of example supporting monthly trackers, MDU explains that under the existing tracker procedure the dramatic upswing in gas costs occurring in the several months prior to mid-January 1997 was not reflected in customer rates until about eight months after the cost increases began. To MDU costs are likely to be shifted from one period to another under the existing tracker procedure. MDU also explains that the delay in reflecting gas costs in consumer gas rates tends to increase the balance in its unreflected gas cost account, a balance which pays no interest to consumers in the event of a previous overcollection by MDU or to MDU in the

case of a previous undercollection. To MDU reflecting price changes near to the time they occur rather than long after will also foster better customer understanding. One PSC concern regarding the existing semi-annual trackers is the opportunity for large customers to move off the system during periods when MDU is collecting for previous undercollections. MDU agreed this could happen, but believes that it has not happened.

6. MDU also points out that there would be no overall rate impact on customers as a result of PSC approval of its proposal (other than reflecting gas cost tracking adjustment changes monthly rather than semi-annually). MDU explains that its proposed annual tracker filing will allow for complete review and true-up of all tracker changes made during the previous year, which would include the annual change to the balancing account and a review of all minimum filing requirement data.

7. Although the PSC shares MDU's concern with price volatility and delays in reflecting gas cost changes in rates to consumers, it is also concerned about the possibility that monthly trackers will result in a departure from past efforts to provide price stability to customers, something the existing semi-annual tracker tends to promote more than would monthly trackers. However, given the present move towards deregulation of the supply component of public utilities many Montana customers will likely need to become more familiar with the gas market. MDU's own records indicate that if a monthly tracker were in place during the past 36 months, considering the proposed \$0.10/dk threshold, there would have been only 17 monthly filings.

8. The PSC finds no compelling reason to disapprove MDU's application. However, the PSC is concerned with gas cost trackers, and more so with monthly trackers, regarding a possible reduction in a utility's business risk, uncertainty about customer acceptance of monthly changes in prices, and customer ability to correctly anticipate and budget for utility bills. These and other procedural concerns or uncertainties are cause to impose several qualifications. Therefore, the procedure for MDU's monthly gas cost tracker filings is approved as filed ("as filed" specifically refers to the "tariffs reflecting proposed changes to gas tariffs [monthly]," included with MDU's application and attached to this Order as Appendix A), qualified by the

conditions as follows (the following provisions control in the event of conflict with any as-filed provision):

a. Prior to the time at which MDU files its first monthly tracker, MDU shall submit for review and approval by PSC staff a written statement and an example of the methodology it intends to use for calculating cost and price changes to be proposed in monthly trackers (*see*, attached tariff paras. 4(b) and (c) and 7(a) and (b)) and the annual complete tracker (*see*, attached tariff para. 5(a)). These should be submitted at a time sufficient to allow staff review and communication with MDU regarding any potential problems with methodology.

b. Anticipating that some information to be included in MDU's monthly filings will be confidential business information, at or prior to the time at which MDU files its first monthly tracker it shall file a request for a Protective Order to safeguard such information. If the PSC determines that protection is warranted the order will be effective for the first monthly tracker and all subsequent monthly trackers, subject to challenge of confidentiality by any interested person in accordance with the terms of standard PSC protective orders and subject to annual review at the time of MDU's complete annual tracker filings.

c. MDU's monthly tracker filing must be submitted to the PSC a minimum of 20 days in advance of effective date.

d. Changes proposed in MDU's monthly filing will become effective on an interim basis on the proposed effective date without further order of the PSC, unless the PSC, on its own motion or a granted motion of an interested person, directs otherwise within 15 days of receipt of MDU's filing.

e. Changes approved through operation of "d" (above) or through other approval will be clearly noted on each customer bill or on a bill stuffer included with the bill at the time the changes go into effect, with an MDU phone number for a contact person should there be customer questions regarding the change.

f. All changes approved through operation of "d" above or through other means will be deemed approved on an interim basis, by rate classification, until finally approved by the PSC following MDU's annual comprehensive filing. Interim approval should not be viewed as a final

endorsement by the PSC of any issues, calculations, or methodologies used by MDU in calculating the change.

g. For MDU's annual filing MDU will report on what the monthly tracker system has accomplished in comparison to what the semi-annual system would have and shall also report the difference in deferred balances and associated interest costs (imputed) under the monthly tracker system as compared to what would have been the case under the semi-annual system.

9. Because of unknowns and uncertainties regarding MDU's monthly tracker filings, including customer acceptance, MDU's monthly tracker procedure as approved in this Final Order will expire at the time that the PSC issues an order following review of MDU's first annual comprehensive filing, unless MDU demonstrates good cause to continue the monthly tracker and the PSC approves that continuation. If the monthly tracker expires the existing semi-annual tracker procedure is reinstated. Pending any PSC decision on continuation of the monthly tracker, the monthly tracker will remain in effect.

CONCLUSIONS OF LAW

10. MDU provides natural gas service to customers in Montana and is a “public utility” within the meaning of § 69-3-101, MCA. The PSC properly exercises jurisdiction over the MDU's Montana procedures, rates, and operations pursuant to Title 69, ch. 3, MCA.

11. Section 69-3-304, MCA, provides, in part, that the PSC may, in its discretion, temporarily approve rate changes pending a hearing or final decision. The rebate provisions of § 69-3-304, MCA, protect ratepayers in the event that any revenue changes authorized on an interim basis in any monthly natural gas tracker are found to be unjustified following review of the annual complete gas cost tracker.

12. Approval or disapproval of a gas cost tracking mechanism or a modification of one is primarily a matter of policy. In the exercise of its jurisdiction the PSC determines that approval of MDU's request to change from semi-annual gas cost trackers to monthly, with the conditions imposed above, is good policy, in the interests of the public, and will not impede the

PSC's obligation to ensure that MDU provides adequate natural gas service to its Montana consumers at just and reasonable rates.

ORDER

13. It is hereby ordered that Montana-Dakota Utilities Co. is granted authority to implement its gas cost tracker procedure on a monthly basis, in accordance with its application for approval to do so, as qualified by the provisions above, effective August 1, 1997, rates effective for bills rendered on or after September 1, 1997.

Done and dated this 29th day of July, 1997, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

DAVE FISHER, Chairman

NANCY MCCAFFREE, Vice Chair

BOB ANDERSON, Commissioner

DANNY OBERG, Commissioner

BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.